

Report on rating research

Client:	PRIVATE JOINT-STOCK COMPANY "INSURANCE COMPANY "INSURANCE HOUSE" (PrJSC " INSURANCE HOUSE ")
Registration date:	14.07.1995
USREOU code:	23364325
Location of the chief office of the company (city, index, street):	49000, Dnepropetrovsk region, Dnepropetrovsk city, Babushkinskiy district, Plekhanov street, 16, office 70
Name of auditing company confirming reporting in the last financial year::	«Dneprovskaya Audit group», LLC
The bank, where the main account of the company is open:	PJSC «MELIOR BANK»
Top executive, title:	Chairman of Board Koval Marina
Telephone/fax:	+ 38 (056) 790-10-95, 787-08-97
Web-site:	www.strahovoy-dom.com.ua
Rating type:	Financial stability of the insurer (general insurance) / credit rating
Rating revision period:	Quarterly
Date of rating:	30.12.2013
Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	uaA-(stable) The insurer with rating uaA- is characterized by a high financial stability compared to other Ukrainian insurers. The level of stability is susceptible to the impact of adverse commercial, financial and economic conditions.
Corelation of national scales with international scale in the countries of operations:	
The correlation of national (Ukrainian) scale ratings and the international scale ratings reflecting the rating in the countries of Agency operations is set by GPRC "Standard-Rating" Rating Committee	
Informational restrictions:	
The report on rating research has no restrictions to distribution. When using materials contained in the report, the reference on RA "Standard Rating" (Ukraine) is mandatory. The Agency considers true all information contained in the report on rating research	
Ratings use limitations:	
All the ratings by the Agency are not recommendations for purchase of securities, use of services or taking any economic decisions. The ratings irrespectively of the scale have to be perceived solely as opinions of Agency analysts on rating object and subject	

Report content:

#	Section title	Page
A.	General characteristics of the insurer	2
B.	Business activity and competition	3
C.	Business diversification	4
D.	Asset quality	4
E.	Quality of reinsurance	4
F.	Adequacy of forming reserves	4
G.	Equity and solvency reserve	5
H.	Support of shareholders	5
I.	Other factors influencing the rating	6
	Summary of rating components	6

(A) General characteristics of the insurer

IC «Insurance house» was registered in 1995. At the moment of assigning the rating the company has had work experience of more than 12 years in the market. At the moment of assigning the rating IC «Insurance house» has had the following licenses for the following types of insurance:

- Insurance of investments.
- Insurance of court costs.
- Insurance of water transport.
- Liability insurance to third parties.
- Loan insurance (including liability of the borrower for non-payment of the loan).
- Insurance of financial risks.
- Insurance of the provide guarantees (sureties) and accepted guarantees.
- Medical expenses insurance.
- Personal Accident Insurance.
- Medical insurance (permanent health insurance).
- Health insurance in case of illness.
- Insurance of land transport (except railway).
- Civil liability insurance of owners of land transport (including carrier's liability).
- Insurance against fire risks and natural disasters.
- Property insurance.
- Insurance of cargo and baggage.
- Insurance of mortgages from the risks of accidental destruction or accidental damage.

Despite a significant work experience of the Company in the market, there is difference between fundamental performance indicators of the Company in the 9 months of 2012 and 2013. Thus, if gross premiums of the insurer in the 9 months of 2013 have amounted to UAH 111,872 mln, in the 9 months of 2012 have amounted to only UAH 0,734 mln. The Company hasn't performed any payments in the analyzed period of 2012, in the 9 months of 2013 its indemnities have amounted to UAH 0,808 mln.

In the period from 01.10.2012 to 01.10.2013 the balance sheet indicators of the insurer, such as shareholders' equity, liabilities, have considerably grown (*table 1*).

Table 1

Key indicators of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013	9 months of 2012	Change	Growth rate, %
1	Total gross premiums	111872	734	111138	15141.4%
2	Insurance indemnities and compensations	808	0	808	-
3	Insurance indemnities/gross premiums ratio	0.72%	0.00%	0.72 p.p.	-
4	Shareholders' equity	275872	15865	260007	1638.87%
5	Liabilities	241852	3585	238267	6646.22%
6	Shareholders' equity/liabilities ratio	114.07%	442.54%	-328.5 p.p.	-
7	Net profit	53107	82	53025	64664.63%
8	ROE	19.25%	0.52%	18.73 p.p.	-

Availability of significant change of the level of business activity in the last 12 months of the insurer's activity indicates the fact that only in 2013 IC «Insurance house» started to undertake significant risks, to reinsure them and to perform indemnities on them. This factor restrains the level of the insurer's rating, but doesn't indicate that the company's activity deserves the rating of speculative level.

(B) Business activity and competition

The estimated market share of IC «Insurance house» according to the results of the 9 months of 2013 has amounted to 0,523%, taking account that gross premiums of Ukrainian insurers have amounted to UAH 21,365 bn. This market share of the Company can be characterized as noticeable. But it also should be taken into account that it was formed only in 2013.

The key source of forming gross premiums of IC «Insurance house» have been premiums received from legal entities, i.e. the company specialized in corporate insurance (table 2).

Table 2

Indicators of business activity of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013	9 months of 2012	Change	Growth rate, %
1	Total gross premiums, including	111872	734	111138	15141.42%
2	from insurants-individuals	194	23	171	743.48%
3	from reinsurers	12054	0	12054	-
4	Proportion of individuals in gross premiums	0.17%	3.13%	-2.96 p.p.	-
5	Proportion of reinsurers in gross premiums	10.77%	0.00%	10.77 p.p.	-
6	Insurance payments sent to the reinsurers	73.6	0	73.6	-
7	Coefficient of dependence from the reinsurers	0.07%	0.00%	0.07 p.p.	-
8	Net premiums	111798.40	734.00	111064.40	-
9	Earned insurance premiums	57972	207	57765	27905.80%
10	Financial result from operating activities	56609	104	56505	54331.73%
11	ROS	50.60%	14.17%	36.43 p.p.	-
12	Acquisition costs	64	0	64	-
13	Acquisition costs/gross premiums ratio	0.06%	0.00%	0.06 p.p.	-

Positive trends of the 9 months of 2013 for IC «Insurance house» also include: very low acquisition costs, low level of the reinsurers' participation in gross business of the Company and high level of ROS and financial result from operating activities.

(C) Business diversification

The Agency has performed the analysis of business diversification of the company by insurance types and notes a very high concentration of risks of IC “Insurance house” by two insurance types according to the results of the 9 months of 2013:

- Property insurance — 35,57% of gross premiums of the insurer;
- Insurance against fire risks — 35,58% of gross premiums of the insurer.

The two insurance types have accounted for 71,15% of the insurer’s premiums that is close to the satisfactory level of specific diversification. The Agency notes a number of positive trends. Thus, IC “Insurance house” doesn’t depend on compulsory types of insurance and didn’t have a significant proportion of the risks from compulsory insurance of civil liability of vehicle owners.

(D) Asset quality

In the period from 01.10.2012 to 01.10.2013 the Agency notes a considerable improvement of quality of assets of IC “Insurance house”. The key trends have been a growth rate of assets, as well as a considerable increase in the proportion of interest bearing assets in income assets (*table 3*).

Table 3

Structure of income assets of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013 (01.10.2013)		9 months of 2012 (01.10.2012)		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Cash on current accounts	7083	9.04%	261	2.22%	6.82 p.p.	2613.79%
2	Banking deposits	40763	52.01%	477	4.06%	47.95 p.p.	8445.70%
3	Stocks	30500	38.92%	11000	93.66%	-54.74 p.p.	177.27%
4	Right of claim to the insurers	27.725	0.04%	0	0.00%	0.04 p.p.	-
5	Total income assets	78373.73	100.0%	11745	100.0%	-	567.29%
6	Total interest bearing assets	47846	61.05%	740	6.30%	54.75 p.p.	6365.68%

IC “Insurance house” has entered the fourth quarter of 2013 with the interest bearing assets of UAH 47,846 mln that have amounted to 61,05% of income assets of the insurer. All the interest bearing assets have been put in banks with the rating of investment level.

(E) Quality of reinsurance

According to the results of the 9 months of 2013 the Agency notes an insignificant amount of reinsurance provision of IC “Insurance house”, which couldn’t influence the financial stability of the Company.

(F) Adequacy of forming reserves

As of 01.10.2013, 99,97% of the formed reserves have referred to the reserves of unpaid premiums (RUP). Besides the RUP, during the three quarters of 2013 IC “Insurance house” has formed the reserve of not reported claims.

Considerable increase in reserves of unpaid premiums and all the technical reserves in the period from 01.10.2012 to 01.12.2013 is explained by the fact that the Company activated its business only in 2013 and provided the increase in gross premiums. Together with the undertaken risks the insurer has got the need to form reserves (*table 4*).

Table 4

Structure of reserves of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013 (01.10.2013)		9 months of 2012 (01.10.2012)		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Reserves of unpaid premiums	55602.5	99.97%	527.25	100.0%	-0.03 p.p.	10445%
2	Reserves of reported, but not paid claims	15	0.03%	0	0.00%	0.03 p.p.	-
3	Total technical reserves	55617.5	100.00%	527.25	100.0%	0.00 p.p.	10448%

In the Agency's opinion, reserves, formed by the Company, are adequate to the undertaken risks and the structure of the Company's assets. As of 01.10.2013 the interest bearing assets of the insurer have covered 86,03% of the formed reserves (*table 5*).

Table 5

Indemnities and indemnities coverage by the interest bearing assets of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013 (01.10.2013)	9 months of 2012 (01.10.2012)	Change	Growth rate, %
1	Insurance indemnities and compensations	808	0	808	-
2	Total gross premiums	111872	734	111138	15141.42%
3	Indemnities/gross premiums ratio	0.72%	0.00%	0.72 p.p.	-
4	Total interest bearing assets	47846	740	47106	6365.68%
5	Interest bearing assets/indemnities ratio	5921.53%	-	-	-
6	Interest bearing assets/insurance reserves ratio	86.03%	140.42%	54,39 p.p.	-

Therefore, reserves, formed on 01.10.2013, are adequate to the undertaken risks, and the reserves are well provided with the interest bearing assets.

(G) Equity and solvency reserve

In the period from 01.10.2012 to 01.10.2013, the shareholders' equity of IC «Insurance house» has grown more than in 18 times. The increase in equity has occurred due to the increase in contributions to the authorized capital of the Company. The authorized capital has been increased from UAH 7 mln up to UAH 207 mln in the given period (*table 6*).

Table 6

Structure of shareholders' equity of PrJSC IC «Insurance house», th. UAH, p.p., %

#	Indicators	9 months of 2013 (01.10.2013)		9 months of 2012 (01.10.2012)		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Authorized capital	207000	75.03%	7000	44.12%	30.91 p.p.	2857.14%
2	Additional invested capital	15249	5.53%	0	0.00%	5.53 p.p.	-
3	Other additional capital	0	0.00%	8758	55.20%	-55.20 p.p.	-
4	Reserve capital	616	0.22%	125	0.79%	-0.56 p.p.	392.80%
5	Undistributed profit	53007	19.21%	-18	-0.11%	19.33 p.p.	-
6	Total shareholders' equity:	275872	100.00%	15865	100.00%	-	1638.87%

Therefore, the shareholders of the insurer, entering the phase of a significant growth of gross premiums, have previously provided the Company with the adequate amount of the shareholders' equity due to its own contributions.

(H) Support of shareholders

At the moment of assigning the rating the Company has had the 12 shareholders-individuals with participation in the company's capital from 5,7% up to 9,65%.

Shareholders of the Company have provided a significant increase in the authorized capital in practice that is why the Agency has identified the support of shareholders for IC

“Insurance house” as significant.

(I) Other factors influencing the rating

Relations with authorities. At the moment of assigning the rating no conflict situations with tax authorities were fixed, the Company was registered for tax purposes in the authorities of the Ministry of Revenue and Duties.

The Agency also didn't fix any tension in relations with the insurance regulator – National Commission of Financial Services. The last license for insurance of the subject of mortgage from the risks of accidental destruction or damage was received by IC “Insurance house” in January of 2013.

Therefore, relationships of the insurer with state authorities currently don't carry any risks for the Company.

2. Summary of rating components

December 30, 2013 Rating agency «Standard-Rating» has decided to assign the credit rating/the financial stability rating of the insurer to Private JSC “Insurance company “Insurance house” (23364325) at the level **uaA-** according to the national scale. The insurer with rating uaA- is characterized by a high financial stability compared to other Ukrainian insurers. The level of stability is susceptible to the impact of adverse commercial, financial and economic conditions. The rating is assigned with stable outlook, but is under development. Assigning the rating, the Agency was guided by the following conclusions:

1. The estimated market share of IC “Insurance house” according to the results of the 9 months of 2013 has amounted to 0,523%, taking account that gross premiums of Ukrainian insurers have amounted to UAH 21,365 bn. This market share of the Company can be characterized as noticeable. But it also should be taken into account that it was formed only in 2013. The Company only recently started to undertake significant risks, to form reserves for them and put them in banks. This is one of the reasons, according to which the status “in development” was assigned to the Company.

2. The two insurance types have accounted for 71,15% of the insurer's premiums that is close to the satisfactory level of specific diversification. However, IC “Insurance house” doesn't depend on compulsory types of insurance and didn't have a significant proportion of the risks from compulsory insurance of civil liability of vehicle owners.

3. IC “Insurance house” has entered the fourth quarter of 2013 with the interest bearing assets of UAH 47,846 mln that have amounted to 61,05% of income assets of the insurer. All the interest bearing assets have been put in banks with the rating of investment level.

4. In the Agency's opinion, reserves, formed by the Company, are adequate to the undertaken risks and the structure of the Company's assets. As of 01.10.2013 the interest bearing assets of the insurer have covered 86,03% of the formed reserves.

5. The shareholders of the insurer, entering the phase of a significant growth of gross premiums, have previously provided the Company with the adequate amount of the shareholders' equity due to its own contributions. The Agency has identified the support of shareholders for IC “Insurance house” as significant.

Rating scale for estimation of the insurer financial stability

National rating scale adapted by RA 'Standard Rating' (Ukraine) for the assessment of financial stability of the insurers

Rating	Contents of insurer financial strength according to the national scale
uaAAA	The insurer with the rating uaAAA is characterized by an outstanding high financial strength in comparison with other Ukrainian insurers.
uaAA	The insurer with the rating uaAA is characterized by very high financial strength in comparison with other Ukrainian insurers.
uaA	The insurer with the rating uaA is characterized by high financial strength in comparison with other Ukrainian insurers. The stability level is sensitive to the influence of adverse commercial, financial and economic conditions.
uaBBB	The insurer with the rating uaBBB is characterized by sufficient financial strength in comparison with other Ukrainian insurers. The stability level depends upon influence of adverse commercial, financial and economic conditions.
uaBB	The insurer with the rating uaBB is characterized by credit solvency below the sufficient one in comparison with other Ukrainian insurers. There is high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaB	The insurer with the rating uaB is characterized by low solvency level in comparison with other Ukrainian insurers. There is very high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaCCC	The insurer with the rating uaCCC is characterized by very low financial stability in comparison with other Ukrainian insurers. There is potential probability of suspension of activity, or temporary interruption of business process with further default of commitments to insured.
uaCC	The insurer with the rating uaCC is characterized by high probability of suspension of activity with further default of commitments to insured.
uaC	The insurer is expecting the suspension of activity and default of commitments to insured.
uaD	The insurer terminated its activity and started liquidation procedure.

– or + are intermediate rating categories within the major categories.

The scale of rating the financial strength of the insurer has been adapted by RA 'Standard-rating' (Ukraine) based on the national scale approved by the resolution of the Cabinet of Ukraine no. 665 of April, 26th, 2007 'On approval of national rating scale'.

Information for the insured:

The rating of the insurer financial stability does not indicate the speed and probability of timely payouts. The rating of the insurer financial stability is the opinion of Agency analysts on the probability of suspension of business processes in the company with the subsequent default to meet the obligations to insured. For the insurance companies, which don't have significant debt obligations to banks and didn't perform bond issues, the financial stability rating coincides with the credit rating.